

**STATEMENT OF SECRETARY OF DEFENSE ROBERT S. McNAMARA
BEFORE THE SENATE SUBCOMMITTEE ON DEPARTMENT OF DEFENSE APPROPRIATIONS
ON THE FISCAL YEAR 1964-68 DEFENSE PROGRAM AND 1964 DEFENSE BUDGET**

Mr. Chairman and Members of the Committee:

It is again our privilege to present to you our Defense program projections for the next five years, and our budget proposals for the coming fiscal year. The form of this statement is similar to the one I presented to you last year. It is arranged in the same manner in which the Defense program is developed, namely, in terms of the principal missions of the Defense establishment, rather than by organizational component or by budget category.

Later in your hearings the Defense Comptroller will summarize the Defense budget by category and appropriation title, in the traditional manner. The Service Secretaries and Chiefs will then present statements on their respective Services.

Upon completion of my statement, General Taylor, the Chairman of the Joint Chiefs of Staff, is prepared to present his analysis of the relative military postures of the United States and its Allies and the Sino-Soviet Bloc.

Again, because of the length of my statement, I would like to present it in sections, if agreeable to the Committee, holding myself available for questioning at the end of each section. The statement contains eleven sections, as shown in the Table of Contents. In addition, there is attached to each copy a set of related Tables which you may wish to follow as we proceed through the statement.

By and large, we have projected the forces and programs through fiscal year 1968, five years beyond the current fiscal year. As I pointed out last year, the further we project these programs the more provisional they should be considered. Changes will have to be made as we move along and entirely new projects, the need for which cannot now be clearly foreseen, will have to be added, as has been done this year.

We have also projected program costs through fiscal year 1968, but these cost projections are still highly tentative. Like all such projections, they suffer from what might be called a "bow wave" effect - a peaking of costs in the years following the budget year and a sharp tapering off in the later years. The peaking is principally the result of two factors: 1) the postponement to the next year of marginal and less urgent projects; and 2) the fact that the program costs beyond fiscal year 1964 have not been subjected to the detailed and rigorous budget reviews accorded the 1964

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estimates. Thus, we are continually pushing the peak of the program before us as we move from year to year; hence, the "bow wave" effect.

The downward slope in the later years of the 1964-68 period reflects our inability to see very clearly the course of future events. This is the typical downward bias inherent in all longer range projections, government or industry. We know, for example, that some of the projects included in the Research and Development program will advance to production and deployment before the end of fiscal year 1968, although we are not sure now which ones will be so advanced. When the decision to produce and deploy is made, the project is transferred to the appropriate mission-oriented program, i.e., Strategic Retaliatory Forces, Continental Air and Missile Defense Forces, General Purpose Forces or Airlift and Sealift Forces, and additional funds are added to procure and operate the system. Therefore, no precise conclusions as to the future course of the Defense program can be drawn simply on the basis of such cost projections. They are useful for internal Defense Department planning, but are in no sense predictions of future budgets.

I also want to remind you that I will be talking about costs in terms of "Total Obligational Authority". Total Obligational Authority represents the full cost of an annual increment of a program regardless of the year in which the funds are authorized, appropriated or expended. These costs will differ from New Obligational Authority in many cases, especially in the Procurement accounts where certain prior year funds are available to finance 1964 programs. Moreover, most of my discussion will deal with the total cost of a program, including the directly attributable costs of Military Personnel, Operation and Maintenance, as well as Research and Development and Military Construction. A reconciliation of the program costs with the budget titles and appropriation accounts for fiscal years 1963 and 1964 is shown on Tables 21 and 22.

Throughout this discussion I will try to call to your attention all major changes from the programs presented to you last year and give you the reasons for them. This will tend to lengthen my statement somewhat, but I believe you will want to know about these changes.

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opponents have greatly extended the range of conflict to cover virtually every aspect of human activity. And we, together with our allies, must carefully allocate our defense effort to ensure that we can meet the challenge on every front and at every level. An assessment of the present and prospective international situation and the military programs of our principal opponents is therefore highly pertinent to any discussion of the Defense program and budget.

B. ASSESSMENT OF THE INTERNATIONAL SITUATION AS IT BEARS ON MILITARY POLICIES AND PROGRAMS

Last year, when our attention was focused particularly on the Berlin crisis, I pointed out that the Defense program we were recommending was geared to our global requirements over the long-term, and not simply to the immediate situation as it then obtained. Since that time, the Nation and, indeed, the whole world has gone through another crisis, precipitated again by the Soviet Union, this time in Cuba. I believe it is clear from the actions taken by the President last October that the United States Government viewed with the greatest concern the sudden intrusion of Soviet offensive weapons in Cuba, only 90 miles from our own shores. However, as acute as this crisis was, and the after-effects have yet to be fully liquidated, it did not then and should not now distract our attention from the more fundamental and far-reaching challenge which Communism poses to the Free World. Without in any way minimizing the grave threat to our national security which would have been posed by Soviet nuclear armed ballistic missiles in Cuba, or, for that matter, the Soviet military presence in that country, those missiles represented but a small part of the total Communist threat to Freedom.

Even while the Soviet Union was attempting to extend its offensive military power directly into Cuba, the undeclared war against the Government of South Vietnam continued and a new overt military aggression was launched against India by the Chinese Communists. In Europe, Soviet pressure on the Allied position in Berlin continued unabated. In the Near East, the Communists were seeking to make inroads in the Arabian peninsula. In Africa, their efforts to exploit dissension and unrest in the Congo had been temporarily thwarted by the actions of the United Nations. All of these crises or probing actions are simply the more obvious manifestations of the Communist drive toward their basic objective of world domination.

This objective is held by both the Soviet Union and Communist China, but very distinct differences in tactics have become apparent. And, indeed, there is increasing evidence that the apparent monolithic structure of world Communism has been fractured, perhaps irreparably. There is emerging a bi-polarization of power in the Communist camp, the Chinese Communists trying to capture control of the Communist revolution and the Soviet Communists seeking to retain their present leadership.

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Although we may draw some comfort from this falling out between the Communist giants, the world situation remains perilous, nevertheless. The destruction of freedom and free nations is still the ultimate objective of both countries, but each is seeking to attain the objective in its own way, and to capture the spoils for itself.

Oddly enough, in this struggle for power in the Communist camp, the weaker of the two rivals is by far the more belligerent and the more reckless, and therefore, very dangerous to the peace of the world. The reason for this difference is not hard to find. The Soviet Union, after 45 years of unrelenting sacrifice and deprivation, is finally emerging from its status as a "have not" nation. Mainland China, however, after 13 years of Communist rule, has barely, if at all, made a start toward self-sufficiency. Her economic condition is desperate. The Soviet Union today has a great deal to lose in a nuclear war -- material wealth as well as human life. The economically impoverished Chinese Communists, to whom human life has little value, believe they have much less to lose. It is not surprising, therefore, that the Red Chinese are much more ready than the Soviet leadership to risk even nuclear war. And, indeed, the Chinese Communists have been quick to take the road of active belligerency in Korea, in Tibet and now in India.

But while war and the threat of war have rightly occupied most of our attention, we must not neglect the fact that the struggle with Communism is continuing through other means. As long as serious political and economic instability exists in any part of the world, the Communists will have an opportunity to enlarge the area of the struggle. Even now they continue to demonstrate their ability to take quick advantage of any breakdown of law and order in any part of the world and to identify themselves with any change in the status quo or with any emerging threat to existing authority.

In this regard, there has been no change in the policy of the Soviet Union to encourage what Mr. Khrushchev calls "wars of national liberation" or "popular revolts", and which we know as covert armed aggression, guerrilla warfare and subversion. And the Soviet Union has not diminished its efforts through the more subtle means of economic and military aid, political intrigue and propaganda to win over the neutral and emerging nations of the world to the cause of Communism. From Africa to the Near East, from Southeast Asia to Latin America, the pattern is the same. We may expect that the struggle in this area will intensify and we must be prepared to meet the challenge.

1. Latin America

Although the Cuban crisis has greatly solidified the unity and cohesion of the American states, the threat of Communism has by no means abated, and a Communist government still rules in Cuba. Our forceful

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response to the threat of armed aggression from Cuba no doubt has diminished for the present the military aspect of the threat. But this simply means that Communist efforts will be shifted to other areas, and the Castroist Communist sabotage last fall in Venezuela is but one of the more violent examples of this danger. More important from the longer term point of view is the fundamental instability engendered by the widespread lack of adequate economic progress. So long as hunger and economic instability persist in Latin America, the danger of Communism will be ever present. Indeed, it is not an overt-armed Communist attack that is the real danger in this part of the world, or even Communist sabotage and subversion -- the real danger lies in the discouragement, disillusionment and despair of the people as a result of the relatively slow rate of economic and social progress.

Prior to fiscal year 1962, U.S. military assistance to Latin America was geared to a concept of hemispheric defense which envisaged the direct participation by Latin American forces in any large-scale conflict. A thorough review of the program convinced us that, except for specific cases where properly equipped naval and air forces could make a significant contribution to the solution of the anti-submarine warfare problem, this concept of hemispheric defense was becoming increasingly unrealistic. The main threat in Latin America today is that of Communist subversion and indirect attack, and not overt military aggression from outside the hemisphere. Accordingly, about one-half of the approximately \$75 million per year of military assistance which the United States is presently providing for Latin America is devoted to equipment and training for internal security purposes, with special emphasis on counterinsurgency training. The major portion of the balance is directed to the support of selected ASW forces. Although we fully recognize that the problem is essentially political and economic, the maintenance of law and order is an essential prerequisite to social and economic progress.

In addition to internal security, our program is also designed to contribute to economic and social development through what we call "civic action" projects. These projects, in such fields as agriculture, transportation, communications, health and sanitation, are beneficial to the people generally. Outstandingly successful programs of this sort have been conducted in Bolivia, Brazil, Chile, Columbia and Honduras. More recently we have instituted a similar program in Ecuador and we are currently developing projects for other Latin American countries, including El Salvador, Guatemala and Peru. Civic action projects are jointly funded by the Military Assistance Program and AID, with MAP providing the military equipment and related training.

But the Military Assistance Program will not in itself solve the problem of political instability which arises from the continued economic difficulties in much of Latin America, and herein lies the real danger of future Communist penetration. It was to meet this more fundamental problem

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that President Kennedy last year launched the Alliance for Progress which committed the United States to a long-term program of economic aid and technical assistance for our Latin American neighbors. This aid -- as explicitly provided in the Charter of Punta del Este -- was contingent on self-help and economic reform, which in our view are absolutely indispensable to future economic growth and social progress. Without these vital domestic measures, external assistance, no matter how large, cannot succeed in achieving the purpose for which intended.

Although the United States fulfilled its pledge at Punta del Este to provide \$1 billion of economic aid during the year which ended in March 1962, and is prepared to continue its assistance during the year ahead on the same general order of magnitude, progress has not been fully satisfactory. First, the level of self-help has not been sufficiently high, and second, the necessary conditions have not yet been created to encourage private investment, both domestic and foreign. Indeed, foreign private investment in Latin America has actually declined and the flight of private domestic capital has, in some cases, reached serious proportions. Yet, without substantial private investment, both domestic and foreign, the vast needs of Latin America will never be satisfied, since public funds on a scale anywhere near adequate to meet the requirement simply do not exist.

The United States Government has not hesitated to bring these shortcomings before the Inter-American Economic and Social Council, where we have urged that every possible measure be taken to create an environment attractive to foreign private investment, and to expand the role of private enterprise in the economies of Latin America. We are confident that further progress will be made in this direction, but the American people must be willing to continue to carry the burden of economic aid to Latin America for some time to come. This effort, seen in the context of the wider struggle between the Communists and the Free World, deserves a place of highest priority in our national security program. It is the most productive expenditure we can make to thwart the threat of Communism in that part of the world so important to our own security.

2. Africa

Africa is another area in which the Communists will try to take advantage of any political and economic instability. Although overt Communist military aggression against Africa is conceivable, it is not very probable because of the logistic difficulties involved. The real danger here is quite similar to that in Latin America, namely, that the Communists could gain a foothold by subverting and overthrowing an existing government. When we consider the large number of newly independent countries on that continent, the many opportunities for trouble-making become readily apparent. We and our Free World allies

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The most critical problem at issue between East and West in Europe continues to be the fate of Berlin. Our sharp confrontation of the Soviets in the Caribbean no doubt upset their agenda for Berlin. Their stationing of nuclear armed ballistic missiles in Cuba was directly related to that agenda. The psychological if not the military threat that these missiles would have posed to our own homeland was apparently the trump card which Mr. Khrushchev intended to play in the next round of negotiations on the status of Berlin.

The set-back dealt Soviet plans in Cuba may have postponed an incipient crisis in Berlin, but did not remove the latent danger in that area. East Germany is still in dire straits, both economically and politically. The freedom and prosperity of West Berlin still stand in stark contrast to the oppression and misery behind the wall. Notwithstanding the wall, the barbed wire and the bullets of the VOPO's, East Berliners still almost daily take the desperate gamble of trying to and sometimes succeeding in escaping to freedom. Although from our point of view, the obvious solution would be to improve the political, social, and economic conditions in East Berlin and for that matter in all of East Germany, the Communists instead still hope to solve the dilemma by obliterating freedom in West Berlin.

This we cannot permit. The United States, England, and France as the occupying powers, have a legal and moral responsibility to the two million people in West Berlin. We cannot abdicate that responsibility without casting grave doubts on our determination and ability to defend freedom in Europe, or -- for that matter -- anywhere else in the world. Thus, Berlin has become for us and our Allies the test of our resolve to forestall any further encroachment of Communism upon the Free World."

C. STRENGTHS AND WEAKNESSES OF THE COMMUNIST BLOC

It is apparent from this brief survey of the international situation that in the years ahead the Communists will have many opportunities to create, if they so choose, new crises in virtually every corner of the globe. Quarrels and armed conflicts will arise both between nations and within nations without any help or instigation from international Communism. But we can be sure that the aspirants for bloc leadership will not hesitate to exploit these difficulties for their own ends. Indeed, the very keenness of this competition has tended to increase their aggressiveness. While Communist China purports to favor violence and armed revolt in extending the sway of Communism, the Soviet Union prefers to achieve the same ends by more subtle means, resorting to force and violence only where they see opportunities for the use of force without undue risk. In either case, their efforts must be thwarted.

1. The Soviet Union

Although Communist China is the more reckless and belligerent of the two, the Soviet Union has by far the greater capability to cause us injury or otherwise damage the interests of the Free World. There is no gainsaying that Soviet resources, industry and technology have given that country the potential to challenge the primacy of U.S. military power in the world. While the size, variety, and power of our strategic retaliatory forces still greatly exceed those of the Soviets, the Kremlin leaders have at their command the resources, production capacity, and technology to produce strong forces of their own. We believe they will continue to make great efforts to do so. The Soviet Union can also be expected to maintain large and well-equipped conventional forces to ensure the internal security of the Soviet Union, to control its European satellites, to secure its Eastern frontiers and to threaten Western Europe.

In addition, we cannot preclude the possibility that the Soviet Union might seek to establish a direct military presence in other parts of the world, as they did in Cuba. But we believe that they are well aware of the dangers inherent in a direct confrontation between U.S. and Soviet military power in these areas where we hold a distinct military advantage. Accordingly, we may anticipate that the Soviet Union will concentrate primarily on other means to extend its influence in these areas, including opportunistic political support, economic aid and military assistance to nonaligned countries, and covert assistance to dissident elements in countries allied with the Western powers.

But the resources and capabilities of the Soviet Union are by no means unlimited. The stresses and strains of their efforts to catch up with the United States are becoming increasingly apparent.

We can also expect that the Soviet Union will want to maintain its great effort in space and astronautics, both for its value as a symbol of scientific and technological excellence and for its potential applications in peace or war. In addition, the Soviets have made great promises to their people forecasting a Communist society of economic plenty. To keep this promise and to impress on the rest of the world, particularly the less economically developed countries, that Communism is the surest road to progress, the Soviet leadership will have to provide for the continued growth of the civilian sector of their economy as well. The rate of Soviet industrial growth, which averaged a little more than 10 percent annually during the first half of the 1950's and nearly 9 percent during the second half of that decade, is now down to about 7 percent. While it is true that the gradual introduction of a shorter work week contributed significantly to this slowdown during the 1950's, the more recent decline in the growth rate must be attributed in great measure to the increasing demands of the military and space programs for specialized, scarce, high-grade resources -- scientists, engineers, highly-trained technicians and high quality materials and computers.

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This decline in the rate of growth of Soviet industry, coupled with increases in defense and space expenditures, has been accompanied by a sharp drop in the rate of increase of new investment. Over-all investment increased only about 4 percent in 1961 compared with year-to-year rises of 8 percent in 1960 and 13 percent in 1959. Almost all sectors of the economy were affected but the consumer industries fared the worst, decreasing 10 percent below 1960.

The latest available information indicates that Soviet military expenditures since 1958 have increased by about one-third, from an estimated 13.7 billion new rubles in 1958 to about 18.1 billion rubles in 1962. It is estimated that the Soviets plan to increase their defense expenditures in 1963 by about one billion rubles. Roughly half of this increase is related to the production and deployment of advanced weapon systems (exclusive of RDT&E) -- which in turn, has required extensive new investment in plant and equipment over the last several years. At the same time, the Soviet Union has continued to maintain large military forces. The reductions in military manpower announced in January 1960 have apparently been abandoned, and the total active duty strength of Soviet military forces today, about 3.25 million, is not much less than it was three years ago.

These additional defense costs can be supported only at the expense of increases in other sectors of the economy, including not only new investment but also what is termed in the Soviet budget "social-cultural measures". This is the category of the budget which includes funds for education, health and social welfare, and a large part of the Soviet research and development program. The increase planned in this category for 1962 was less than the average annual increase of past years.

The strain on the Soviet economy is also being demonstrated in other ways. Last June, Mr. Khrushchev announced a drastic increase in the price of meat and butter in order to bring demand for these items back into better balance with the short supply. This action was felt so keenly by the Soviet people that it led to riots in some cities. In October, the Soviet Government announced the cancellation of a scheduled income tax cut, part of a 1960 promise to eliminate income taxes by 1965. The Soviet people were told that this indefinite postponement of future tax cuts resulted from the need for increased defense expenditures. These taxes on personal income bring in almost 6 billion rubles a year to the Soviet treasury, about 7 percent of the total revenues. In still another restrictive move, the Soviet Government announced the curtailment of private construction which, particularly in the rural areas, has been a very important source of new housing. This action is a clear reflection of the cut-back in investments in "construction and construction materials." Finally, the failure of Soviet agriculture to meet its production goals in recent years has been attributed by many experts not only to the fact that collectivized agriculture can never be as efficient as free enterprise

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farming, but also to the lack of adequate investment -- a lack illustrated, for example, by the low use of chemical fertilizers.

It is apparent that the lower growth rates of the past two years are related to the rising demands of their military and space programs. These programs will continue to exert great pressure on Soviet resource availabilities during the next few years. Conversely, the slower rates of economic growth, the demands of the civilian economy, the requirements of their foreign aid program etc., will act as restraints on further additions to the military and space programs, particularly on large and very costly new programs such as an effective anti-ballistic missile defense system.

In other words, the Soviet leadership is confronted with a very severe resources allocation problem and must strike a balance among its various objectives: military; space; foreign aid; civilian housing; agriculture and improvement of the standard of living of the Soviet people; etc. The Soviets could, over the next few years, build a large force of hardened second generation ICBM's; they could develop and deploy an ICBM delivery system for the large yield nuclear warheads they have been testing since 1961; they could expand and improve their MRBM/IRBM systems; they could continue to maintain and improve their active defenses against manned bomber attack; they could maintain a large and modernly-equipped army; they could develop and deploy some sort of a system of active defense against ballistic missile attack; they could modernize and improve their large fleet of submarines including ballistic missile-firing types; they could continue the space race; they could expand both military and economic aid to the non-aligned nations; they could make the great investment needed to create an efficient agricultural economy; they could continue to push the development of heavy industry; or they could increase the standard of living of the Soviet people -- but they cannot do them all at the same time.

There is evidence that the increasing military burden on the economy has led to debate within the Soviet leadership during the last two years. We can expect that the pressures on the Kremlin leaders will be intensified over the next few years, as we continue to move forward with our own military and space programs and as the economic and military strength of the Free World continues to grow.

Although we cannot predict with any degree of precision how the Soviet leadership will solve its resources allocation problem, it may be that the strain of so many competing claims on the Soviet economy will tend to limit the size and help determine the character of the Soviet military program, at least over the next few years.

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We have, however, been studying and testing the feasibility of modifying certain radars to give them a capability to detect missiles launched from submarines. These tests were successful and we now propose to modify selected radars on the East Coast to give them some capability against shorter range missiles launched from submarines or from Cuba, thus providing at least a few minutes of warning. Twenty-five million dollars has been included in the fiscal year 1964 budget for this purpose. We may later wish to provide a similar capability on the Pacific Coast. Furthermore, the NIKE-X system would, if we decide to deploy it, provide a substantial capability against submarine-launched missiles.


E. SPACE SURVEILLANCE

Although, as I noted earlier, attack from enemy satellites is not a very likely threat for the immediate future, it is a possibility and we must develop the necessary techniques and equipment now so that we can quickly provide a defense if the need should ever arise. The first task is to be able to detect and track all objects in orbit. This is now being done through the Space Detection and Tracking System (SPADATS), which is under the control of NORAD. SPADATS is a combination of the Navy's Space Surveillance (SPASUR) system and the Air Force's SPACETRACK. Data from this consolidated system plus additional information from

abroad, particularly in Europe and Korea. We have prepositioned substantial amounts of equipment and supplies in Europe and in the Far East. We have initiated a limited program of forward floating bases. Finally, we are maintaining a large central reserve of General Purpose Forces in the continental United States, and are building the airlift required to move these forces promptly to wherever they might be needed.

A. AIRLIFT

Last year I outlined to the Committee the manner in which we computed our airlift requirements and the forces programmed to fulfill them. Problems encountered during the Cuban crisis, however, have led us to the conclusion that some increase in these forces is necessary.



The old C-119, while specifically designed for airborne operations, is small and slow and has but a fraction of the range of the new C-130. While it is useful to have in reserve, we cannot rely upon this aircraft for airlift to areas [redacted] distant than [redacted]. We therefore propose to acquire an additional 6 squadrons of C-130E's which are not only good transport aircraft but are also efficient troop carriers. We plan to acquire the additional aircraft by increasing the production rate from 12 to 15 per month, thus raising the C-130 force to 34 squadrons by early 1965, instead of the 28 squadrons which we had previously programmed. This force will be continued at least through 1968, as shown on Table 13.

As the additional C-130E's are acquired, they will be used to replace an equal number of C-124's which we had planned to keep in the force through 1967. The C-124 is a useful aircraft for strategic airlift, but it is not suitable for air-drop operations. Accordingly, the C-124's will be phased out of the active forces and into the Air Force Reserve more rapidly than we had planned last year.

Another significant change involves the C-123 assault transport. Last year we had planned to phase out these aircraft during fiscal year 1964. However, we have found the C-123 to be an extremely useful aircraft in Vietnam and elsewhere because of its short take-off and landing characteristics. We therefore propose to keep the 80 C-123's now in the force through 1965 and to start phasing them out in 1966, by which time we will have in the inventory large numbers of other suitable aircraft.